

ORIGINAL



0000144687

RECEIVED

2013 MAY -3 P 3:38

AZ CORP COMMISSION
DOCKET CONTROL

FENNEMORE CRAIG

A Professional Corporation
Patrick J. Black (No. 017141)
2394 E. Camelback Road, Suite 600
Phoenix, Arizona 85015
Telephone (602) 916-5000

Attorneys for Cordes Lakes Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF CORDES LAKES
WATER COMPANY FOR APPROVAL
OF A RATE INCREASE

DOCKET NO: W-02060A-12-0356

**NOTICE OF FILING REBUTTAL
TESTIMONY**

Cordes Lakes Water Company hereby submits this Notice of Filing Rebuttal
Testimony of Matthew Rowell on behalf of Cordes Lakes Water Company in the above-
captioned docket.

RESPECTFULLY SUBMITTED this 3rd day of May, 2013.

FENNEMORE CRAIG, P.C.

By

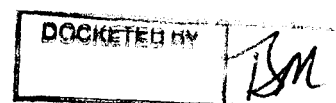
Patrick J. Black
2394 E. Camelback Road, Suite 600
Phoenix, Arizona 85016
Attorneys for Cordes Lakes Water Co.

ORIGINAL and thirteen (13) copies of the
foregoing, were filed
this 3rd day of May, 2013, to:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

MAY 3 2013



1 COPY hand-delivered/mailed/emailed
2 this 3rd day of May, 2013 to:

3 Marc E. Stern, Esq.
4 Administrative Law Judge
5 Hearing Division
6 Arizona Corporation Commission
7 1200 W. Washington St.
8 Phoenix, AZ 85007

9 Robin Mitchell, Esq.
10 Legal Division
11 Arizona Corporation Commission
12 1200 W. Washington St.
13 Phoenix, AZ 85007

14 Steven M. Olea
15 Director, Utilities Division
16 Arizona Corporation Commission
17 1200 West Washington
18 Phoenix, AZ 85007

19

20 By: W. M. M. [Signature]

21

8143063.1

22

23

24

25

26

27

28

29

30

31

32

33

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

FENNEMORE CRAIG, P.C.
Patrick J. Black (No. 017141)
2394 East Camelback Road
Suite 600
Phoenix, Arizona 85016

Attorneys for Cordes Lakes Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF CORDES LAKES
WATER COMPANY FOR APPROVAL
OF A RATE INCREASE.

DOCKET NO: W-02060A-12-0356

**REBUTTAL TESTIMONY OF
MATTHEW ROWELL
May 3, 2013**

1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Matthew Rowell. My business address is PO Box 51628, Phoenix,
4 Arizona.

5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT ARE YOUR DUTIES**
6 **AND RESPONSIBILITIES?**

7 A. I am a managing member of Desert Mountain Analytical Services ("DMAS") a
8 consulting firm specializing in utility regulatory matters. In that capacity I have
9 provided testimony regarding various utility regulatory issues before the Arizona
10 Corporation Commission ("Commission").

11 **Q. PLEASE STATE YOUR BACKGROUND AND QUALIFICATIONS IN THE**
12 **FIELD OF UTILITY REGULATION.**

13 A. A statement of my qualifications is attached as Exhibit 1 to this testimony.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. This testimony responds to Staff's February 13, 2013 Testimony in this docket. It
16 also corrects some deficiencies in the Company's original application.

17 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

18 A. This testimony deals with the following issues:

- 19 • Cost of Capital
20 • The Company's CIAC balance
21 • Real Property Included in Rate Base
22 • The Company's bad debt expense
23 • Staff's plant disallowance based on its analysis of provided invoices
24 • Post Test Year Plant
25 • Accounting Expenses
26 • Purchased Power Expenses
 • Revenue Requirement and Rate Design
 • The Company's requested surcharges
 • Best Management Practices ("BMPs")
 • Future CC&N application

1 This testimony establishes that Staff's recommended return on equity for Cordes
2 Lakes is far too low to be reasonable. A return on equity of 10.55% is shown to be
3 consistent with recent Commission practice and with the standards established by
4 the *Hope and Bluefield* Supreme Court decisions¹ regarding regulated rates of
5 returns.

6 While the Company accepts most of Staff's adjustments, the reversal of two
7 adjustments (Rate Base adjustments #3 and #5) and changes to information
8 included in the original application now results in a rate base considerably higher
9 than that recommended by Staff.

10 The above summarized changes result in a revenue requirement of
11 \$470,807. This is an increase of \$50,271 or 12%. The median residential customer
12 will experience an increase of \$2.70 per month.

13 Admittedly, some of the issues that require correction stem from the
14 Company's application and are not necessarily the result of Staff's adjustments
15 (e.g. bad debt expense.) The owners of Cordes Lakes are not as knowledgeable or
16 experienced with ratemaking and ratemaking principles as some of their
17 counterparts. Their attempt to put this case together without outside assistance was
18 done in order to minimize costs, but it became readily apparent that using a 'short
19 form' process intended for Class D and E utilities was to the Company's detriment.
20 Similarly, Staff's decision to declare the application sufficient when it still had
21 obvious deficiencies was no doubt made with good intentions, but it has lead to an
22 incomplete analysis that does not benefit either the Company or its customers. The
23 recommendations in this testimony address the most glaring problems with the
24 application and Staff's recommendations.

25 ¹ *Fed. Power Comm'n et al. v. Hope Natural Gas Co.*, (320 U.S. 591) and *Bluefield Water Works*
26 *v. Pub. Serv. Comm'n*, 262 U.S. 679 (1923).

1 **II. COST OF CAPITAL**

2 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.**

3 A. I do not present a full cost of capital analysis here. Given the timing of my
4 involvement in this case, and the desire to limit the rate case expense, I will not be
5 providing the customary 40-page detailed and complex analysis as Staff chose to
6 do. Rather I will point out some significant flaws in Staff's analysis and present a
7 basic argument as to why a return of 10.55% is reasonable for Cordes Lakes.

8 **Q. DO YOU AGREE WITH STAFF'S RECOMMENDATIONS REGARDING**
9 **CAPITAL STRUCTURE?**

10 A. Yes. The Company's capital structure is 100% equity.

11 **Q. WHAT IS THE BIGGEST ISSUE WITH STAFF'S COST OF CAPITAL**
12 **RECOMMENDATIONS?**

13 A. The biggest issue with Staff's cost of capital analysis is that it is inconsistent with
14 the standards established by the *Hope and Bluefield* Supreme Court decisions²
15 regarding regulated rates of returns ("*Hope and Bluefield*".) The *Hope and*
16 *Bluefield* decisions are recognized nationally as establishing the standards under
17 which regulated utility rates of return are determined. In a recent case, the
18 Commission reaffirmed its view that *Hope and Bluefield* are foundational.³

19 The requirements of *Hope and Bluefield* can be summarized as follows:⁴

- 20 1. Commensurate Earnings: A utility is entitled to a return similar to
21 that being earned by other enterprises with similar risks.

22
23 ² *Fed. Power Comm'n e. al. v. Hope Natural Gas Co.*, (320 U.S. 591) and *Bluefield Water Works*
v. Pub. Serv. Comm'n, 262 U.S. 679 (1923)

24 ³ See Arizona Water Company Docket No. W-01445A-11-0310, Decision No. 73736 (February
25 20, 2013) at 42 line 27.

26 ⁴ This summary follows Parcell, David C., *The Cost of Capital – A Practitioner's Guide* (2010
Edition), p. 26,30.

2. Financial Integrity: A utility is entitled to a return level reasonably sufficient to assure financial soundness.
3. Capital Attraction: A utility is entitled to a return sufficient to support its credit and raise capital.
4. Changing Level of Returns: A fair return can change along with economic conditions and capital markets.
5. "End Result" Doctrine: How the rate of return and rate base are determined are not important as long as the end result is reasonable.

Staff's analysis fails to satisfy any of the above criteria. I will explain why Staff's analysis fails to satisfy these criteria in turn:

1. Commensurate Earnings: Staff makes no attempt to evaluate the earnings of other companies with similar risk profiles as Cordes Lakes. Staff's analysis is based solely on *estimates* of investor *expectations* derived from highly stylized theoretical models. The inputs into these models are derived from companies whose risk profile is substantially different from Cordes Lakes. Cordes Lakes is *less than one half of one percent* of the size of the *smallest* utility in Staff's sample.
2. Financial Integrity: Staff's cost of capital analysis makes no attempt to address the financial integrity of Cordes Lakes. Cordes Lakes is currently struggling financially and faces the need for substantial capital improvements (as verified by Staff's engineering witness⁵). Staff's cost of capital witness makes no mention of Cordes Lakes financial condition or of its need to deploy capital.

⁵ See Exhibit DS to the Direct Testimony of Del Smith at page 8.

- 1 3. Capital Attraction: Staff's proposed revenue requirement is in no
2 way sufficient for Cordes Lakes to attract the necessary capital.
3 Cordes Lakes is in need of substantial capital improvements (verified
4 by Staff's engineering witness⁶) and no rational investor would
5 provide that capital based on Staff's recommended revenue
6 requirement.
- 7 4. Changing Level of Returns: Staff's recommended returns vary based
8 on day to day movements in the stock market and on daily changes in
9 the interest rates on US Treasury bills. While theoretically this
10 analysis accounts for changes in the capital markets, in practice it in
11 no way reflects the reality of the capital markets in a meaningful way.
12 Staff's analysis does not address general economic conditions at all.
- 13 5. "End Result" Doctrine: Staff actually seems to employ the opposite
14 of the end results doctrine. Staff appears to be more concerned with
15 the process than with the reasonableness of the end results. Staff's
16 recommended revenue requirement provides no relief for Cordes
17 Lakes, which is financially challenged and in need of substantial
18 capital investment in order to continue providing its customers with
19 safe, adequate water utility service at reasonable rates.

20 **Q. DO YOU HAVE ANY MORE SPECIFIC CRITICISMS OF STAFF'S COST**
21 **OF CAPITAL ANALYSIS?**

22 A. Yes. Staff's cost of equity estimate is derived from averaging the result of four
23 different models:

26 ⁶ Ibid.

Historical MRP CAPM	6.4%
Current MRP CAPM	10.0%
Constant Growth DCF	8.1%
Multi-Stage DCF	9.5%

While I have issues with each of these models, in order to cut down on rate case expense, I will limit my discussion to Staff's use of the Historical Market Risk Premium ("MRP") CAPM.⁷ The result of Staff's Historical MRP CAPM (6.4%) is so low as to be unreasonable on its face. I have examined the actual returns on equity accruing to the companies in Staff's sample and 6.4% is well below what any of them are actually earning. Including such an unreasonable result in the analysis is not appropriate.

Q. WHY IS STAFF'S HISTORICAL MRP CAPM SO LOW?

A. To answer this, I must first explain the mathematics of the CAPM. The CAPM is based on the highly unrealistic and unsupported proposition that investors care only about three variables: The risk free rate of return ("RF"), Beta and the Market Risk Premium ("MRP"). Expressed as an equation:

$$(1) \quad \text{Expected Cost of Equity} = \text{RF} + \text{Beta} * \text{MRP}$$

The Market Risk Premium ("MRP") is equal to the Overall Rate of Return on All Assets ("Market Return") minus the risk free rate of return ("RF"):

$$(2) \quad \text{MRP} = \text{Market Return} - \text{RF}$$

Substituting (2) into (1) we see that the Risk Free Rate of Return actually occurs twice in the CAPM:

$$(3) \quad \text{Expected Cost of Equity} = \text{RF} + \text{Beta} * (\text{Market Return} - \text{RF})$$

High school algebra tells us that when a variable appears more than once in an equation, it should be assigned the same number (because you can't "solve for X")

⁷ CAPM is an acronym for Capital Asset Pricing Model.

1 if X is two different numbers.) Staff abandons this simple logic and plugs in two
2 different numbers for RF in the above equation. In the first instance (just after the
3 equal sign) where RF has a positive impact, Staff plugs in a low estimate of RF
4 (1.29%). However, in the second instance (the last item in the equation) where RF
5 has a negative impact, Staff plugs in a high estimate of RF (4.66%).

6 Notwithstanding the metaphysical question of how the Risk Free Rate of
7 Return can be two different numbers at the same time, it is instructive to swap
8 Staff's two estimates of RF to demonstrate how its numbers can be manipulated to
9 lower the CAPM. For instance, if we put Staff's high estimate (4.66%) at the front
10 end of the equation, and their low estimate (1.29%) at the back end, the result is
11 12.18%. Similarly, if we plug in either of Staff's estimates of RF consistently we
12 get significantly higher results than Staff's 6.4%.

13 **Q. DOES STAFF OFFER ANY EXPLANATION AS TO WHY IT USES TWO**
14 **DIFFERENT ESTIMATES OF RF IN THE SAME EQUATION?**

15 A. No.

16 **Q. WHAT ARE THE ACTUAL RETURNS ON EQUITY BEING EARNED BY**
17 **THE COMPANIES IN STAFF'S SAMPLE?**

18 A. The actual returns on equity earned by the companies in Staff's sample in 2012 are:

American States Water	11.91%
California Water	10.31%
Aqua America	14.18%
Connecticut Water	7.33%
Middlesex Water	7.78%
SJW Corp	8.13%

24 The simple average of the above numbers is 9.94%. Calculating a weighted
25 average based on the equity in the capital structure of the above companies results
26

1 in an ROE of 11.82%. Both of these numbers are well above Staff's
2 recommendation of 9.1%.

3 More importantly, Cordes Lakes has a much less favorable risk profile than
4 any of the above companies. Accordingly, any cost of equity analysis based on
5 these companies should include a significant risk premium (a point which Staff
6 apparently agrees with since they include a 60 basis point premium in their
7 analysis).

8 Alternatively, a return on equity based on the ROEs of companies in a
9 similar situation as Cordes Lakes should be used.

10 **Q. HAS THE COMMISSION RECENTLY DECIDED A RATE CASE FOR A**
11 **COMPANY SIMILAR TO CORDES LAKES?**

12 **A.** On February 20, 2013 the Commission issued Decision No. 73736 in the Arizona
13 Water Company Eastern Group ("AMC") rate case. AWC is much larger than
14 Cordes Lakes, but it's Eastern Group is quite small relative to the companies in
15 Staff's sample. Like Cordes Lakes, AWC is faced with the need for substantial
16 rehabilitation of its older plant. In that case, relying on the principles laid out in the
17 *Hope and Bluefield* decisions, the Commission adopted a return on equity of
18 10.55%.

19 Given that Cordes Lakes is in a very similar situation to AWC's Eastern
20 Group, it is appropriate to allow the same return on equity for Cordes Lakes. Also,
21 the End Results Doctrine discussed above leads to the same conclusion. A return
22 on equity of 10.55%, along with the other recommendations in this testimony,
23 provides for a very reasonable end result. Cordes Lakes' customers will
24 experience a very manageable increase (\$2.70 per month for the median residential
25 customer) to what is currently a low monthly bill (the current median Cordes Lakes
26 Customer's bill is \$19.78 per month.) The increase proposed herein will greatly

1 enhance Cordes Lakes' financial viability and allow it to begin dealing with
2 substantial capital deployment needs, with minimal impact to its customers.

3 **III. CIAC BALANCE**

4 **Q. PLEASE DISCUSS THE ISSUE REGARDING THE COMPANY'S CIAC**
5 **BALANCE.**

6 A. Staff is recommending a CIAC balance of \$76,247 for Cordes Lakes. Staff further
7 recommends that this CIAC balance should never be amortized. These
8 recommendations are based on Staff's interpretation of the Commission's order in
9 the Company's 1984 rate case (Decision No. 54526.) I believe that Staff's
10 recommendation is based on an incorrect interpretation of Decision No. 54526.
11 Furthermore, even if Staff was interpreting Decision No. 54526 correctly, the
12 Commission's view of CIAC has evolved substantially since 1985. Given current
13 Commission practices, a non-amortizing CIAC balance is neither reasonable nor
14 supportable.

15 **Q. WHY DO YOU BELIEVE THAT STAFF'S INTERPRETATION OF**
16 **DECISION NO. 54526 IS FLAWED?**

17 A. Staff relies on language at page 3 lines 10-17 of Decision 54526. That language
18 states:

19 "An *additional* matter was brought forth *at hearing*. CLWC
20 indicated that it was presently 'amortizing' certain
21 unrefunded *advances* which it had subsequently determined
22 would never be repaid. Any advances which are no longer
23 subject to refund should be *reclassified* as CIAC. The
24 Commission has consistently rejected amortization of CIAC,
and any such amortization without express approval is
improper. CLWC should immediately *reclassify* these
balances as CIAC and should cease further amortization.
Previous amortization should also be reversed." (Emphasis
added.)

1 A CIAC balance for Cordes Lakes of \$76,247 is included in the Staff Report
2 for the 1984 rate case application.⁸ The order states clearly that the unrefunded
3 advances were an "additional" issue brought up "at hearing." Therefore, the order
4 could not have been referring to the \$76,247 in CIAC included in the Staff's *pre-*
5 *hearing* Staff Report. Additionally, the order also states clearly that the advances
6 should be "reclassified" as CIAC. But Cordes Lakes' \$76,247 CIAC balance was
7 already classified as CIAC prior to the hearing, so there would have been no need
8 for a reclassification. For these reasons, it is apparent that the advances discussed
9 in Decision 54526 were not the \$76,247 CIAC balance presented in the Company's
10 1984 rate case application. Staff's assumption that Decision 54526 was referring
11 to the \$76,247 CIAC balance is simply incorrect.

12 **Q. SO WHAT WERE THE ADVANCES THAT DECISION 54526 REFERRED**
13 **TO?**

14 A. These advances were associated with the Company's Verde Village System, which
15 was part of the 1984 rate case. The Verde Village System was subsequently
16 condemned by the City of Cottonwood some years ago. Consistent with normal
17 ratemaking practices, the AIAC and CIAC associated with the Verde Village
18 System would have conveyed with the condemnation.

19 **Q. HOW HAS THE COMMISSION'S VIEW OF CIAC CHANGED SINCE**
20 **DECISION 54526?**

21 A. Decision 54526 indicates that CIAC should not be amortized. Since that time, the
22 Commission has completely reversed its position regarding CIAC amortization. In
23 fact, every rate case I am aware of includes CIAC amortization. The NARUC
24 unified Systems of Accounts (published in 1996) also provide for CIAC
25

26 ⁸ See page 15 of the Staff Report filed on December 4, 1984 in Docket U-2060-84-036.

1 amortization. Based on current practice, I can think of no reasonable explanation
2 as to why a 30 year old un-amortized CIAC balance should be kept on a company's
3 books.⁹

4 **Q. WHAT ARE YOU RECOMMENDING FOR THE COMPANY'S CIAC**
5 **BALANCE?**

6 A. The Company's internal accounting records indicate that it has a CIAC balance of
7 \$92,754. This is offset by accumulated CIAC amortization of \$53,720 providing a
8 net CIAC amount of \$39,034. Schedule 1 shows the derivation of these CIAC
9 amounts.

10 **IV. BAD DEBT**

11 **Q. PLEASE DISCUSS THE ISSUE INVOLVING BAD DEBT.**

12 A. I noticed that the Company's original application contained no provision for bad
13 debt. This struck me as odd since all companies experience at least some level of
14 non-payment (especially in a state like Arizona, where transient residents are
15 common). The Company was unaware that bad debt expense could or should be
16 included in a rate case application.

17 The Company provided me with its test year bad debt expense (tracked by
18 their billing system), which is included in the schedules I prepared. The test year
19 level of Bad Debt expense is \$4,049. This is just less than 1% of the Company's
20 operating revenue. The detail of the \$4,049 bad debt expense is included as
21 Exhibit 2. The \$4,049 is a reasonable amount and reflects the Company's actual
22 test year bad debt expense. This bad debt expense should be included as a
23 component of the revenue requirement in this case.

24 ⁹ Conceivable, if the CIAC may have been associated with non depreciating plant (i.e., land) it
25 should not be amortized. But if that were the case there should have been a \$76,247 land balance
26 for Cordes Lakes in the 1984 case. The 1984 case did not include a \$76,247 land balance for
Cordes Lakes.

1 **V. REAL PROPERTY**

2 **Q. PLEASE DISCUSS THE ISSUES INVOLVING LAND IN THIS CASE.**

3 A. Staff's Rate base Adjustment No 1 removes \$35,665 from plant based on it being
4 for a lot that is not used or useful. I do not have an issue with this adjustment; the
5 lot in question is not currently being used by the Company. However, the \$35,665
6 was the entire amount the Company was claiming for land in its application. The
7 Company owns other parcels of land used in the provision of water utility service
8 to its customers. Staff's engineering report indicates that the Company operates
9 five wells and two booster stations. Each of these facilities has to be located on a
10 piece of land. Therefore a zero balance for land is unreasonable and not reflective
11 of reality.

12 After some inquiry, I was informed that the Company's internal accounting
13 records indicate a land balance of \$85,599. The Company did not include the full
14 amount of land balances in its rate case application. Exhibit 3 shows the detail of
15 the Company's land balance since 1999.

16 Removing the \$35,665 for the unused lot from the Company's total land
17 balance leaves a land balance of \$49,934. This is a reasonable amount considering
18 that the facilities owned and operated by the Company (five wells and two booster
19 stations) are located on the land. Inclusion of the \$49,934 land balance in rate base
20 is appropriate and consistent with standard ratemaking practices.

21 **VI. INVOICES**

22 **Q. PLEASE DISCUSS THE ISSUES INVOLVING STAFF'S ADJUSTMENT**
23 **NO 3.**

24 A. Staff's adjustment No 3 removes \$11,818 of used and useful plant from rate base.
25 This disallowance is based on: (i) Staff's decision to classify certain plant additions
26 as expenses, and (ii) on one invoice inadvertently not being provided by the

1 Company. The missing invoice is attached to this testimony as Exhibit 4. Staff's
2 allocation of the invoiced amounts to expenses is excessive and is not consistent
3 with normal capitalization procedures. Schedule 2 compares Staff's proposed
4 allocations to those proposed by the Company. Schedule 2 also shows that the
5 Company's proposed allocation between plant and expenses - along with the
6 missing invoice - make Staff's proposed \$11,818 disallowance unnecessary.

7 **Q. DOES STAFF JUSTIFY THEIR DECISION TO CLASSIFY CERTAIN**
8 **PLANT ADDITIONS AS EXPENSES?**

9 A. No. Staff simply states that some invoices "included non-capitalized items."¹⁰
10 Staff does not explain why it considers certain items to be "non-capitalized."

11 For an example of why Staff's classification of the provided invoices is
12 unreasonable, let's consider Invoice No. 108115 for \$1,229. This invoice is
13 attached as Exhibit 5. This invoice includes long lasting plant items such as gate
14 valves (part # BGV.007) and Meter Valves (part # KV43.342W), and yet Staff
15 classifies all \$1,229 as a repair expense. Capitalization policies vary across
16 companies. Some companies will capitalize any expenditure above a certain
17 amount (e.g., \$100.) Others employ a policy of capitalizing any expenditure that
18 increases the life of the plant. Under either of these policies the expenditures in
19 Invoice No. 108115 would qualify as capital improvements.

20 **VII. RATE CASE EXPENSE**

21 **Q. PLEASE DISCUSS YOUR RECOMMENDATION REGARDING RATE**
22 **CASE EXPENSE.**

23 A. The Company's owners initially attempted to compile and process this rate case
24 application without outside assistance. However, compounding the problem was
25

26 ¹⁰ Direct Testimony of Mary J Rimback at 9 line 15.

1 that the Company was allowed to use a short-form application intended for Class D
2 and E utilities. While Staff's intentions may have been to allow Cordes Lakes'
3 owners to avoid the complexities inherent in a full rate case proceeding, it then
4 proceeded to file nearly 40 pages of complex cost of capital testimony. Moreover,
5 Staff then recommended a median increase of \$.02 for a typical ¾-inch meter
6 customer, which is less than one-tenth of one percent, based on a flawed three-
7 tiered rate structure. Faced with such an unreasonable recommendation that does
8 nothing to ensure the financial viability of the Company, Cordes Lakes' owners
9 determined that outside assistance was indeed necessary. This testimony and the
10 attached schedules only correct the deficiencies in the case DMAS has identified.
11 This amount of effort, including the legal expenses necessary to properly process
12 this case, is estimated to result in a very reasonable rate case expense of \$18,000.
13 The Company proposes to amortize that expense over three years.

14 **VIII. POST TEST YEAR PLANT**

15 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED POST TEST YEAR**
16 **PLANT**

17 A. Since the end of the test year the Company has had to replace multiple pump
18 motors and install various other electrical equipment. These plant expenditures
19 total \$7,680 to date in 2013 and \$8,643 for 2012. The Company proposes adding
20 the total amount of \$16,324 to rate base. This adjustment includes an increase to
21 accumulated depreciation of \$2,641 and to depreciation expense of \$1,560. Given
22 that nearly a year and a half has passed since the end of the test year a post test year
23 plant adjustment is appropriate. This amount does not represent the total amount of
24 plant added since the end of the test year, rather it is the amount DMAS was able to
25 identify and verify within the limited time available to develop this Rebuttal
26 Testimony.

1 **IX. EXPENSE ADJUSTMENTS**

2 **Q. PLEASE DISCUSS THE COMPANIES PROPOSED ADJUSTMENT TO**
3 **ACCOUNTING CONTRACTUAL SERVICES.**

4 A. Most of the Company's accounting is now done in house by Mr. Neil Folk.
5 However, because of Mr. Folk's advanced age the Company is actively seeking a
6 vendor to supply comprehensive outside accounting services. In DMAS'
7 experience a typical Class C water utility incurs outside accounting expenses of
8 \$10,000 per year. An adjustment of \$6,340 to bring the Company's current outside
9 accounting expense, \$3,660, up to \$10,000 is appropriate in light of this situation.

10 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENT TO**
11 **PURCHASED POWER EXPENSE.**

12 A. The Company is a customer of Arizona Public Service (APS) which had a rate case
13 conclude on March 24, 2012 (Decision No. 73183.) This decision makes several
14 changes to APS' myriad charges and surcharges. On net these changes result in an
15 increase of \$917 per year for Cordes Lakes and the Company is proposing an
16 adjustment to account for these known and measurable changes.

17 **X. REVENUE REQUIREMENT AND RATE DESIGN**

18 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REVENUE**
19 **REQUIREMENT.**

20 A. The Company proposes an increase in revenue of \$50,271. This is an increase of
21 12% over adjusted test year revenue of \$420,536.

22 **Q. WHAT RATES ARE THE COMPANY PROPOSING?**

23 A. Table 1 shows the Company's proposed rates along with the present rates, as well
24 as Staff's proposed rates:
25
26

Table 1

Monthly Minimum Charges			
	Present Rates	Staff Proposed	Company Proposed
¾" Meter	11.00	11.00	13.52
1" Meter	19.50	19.50	23.35
2" Meter	62.50	62.50	76.82

Commodity Rates ¾" Meters

Tiers by gallons	Present Rates	Staff Proposed	Company Proposed
Tier 1 < 3K	2.80	2.80	2.81
3K < Tier 2 < 8K	4.30	4.50	4.50
Tier 3 > 8K	5.00	5.40	5.40

Commodity Rates 1" Meters

Tiers by gallons	Present Rates	Staff Proposed	Company Proposed
Tier 1 < 18K	4.30	4.50	4.50
Tier 3 > 8K	5.00	5.40	5.40

Commodity Rates 2" Meters

Tiers by gallons	Present Rates	Staff Proposed	Company Proposed
Tier 1 < 75K	4.30	4.50	4.50
Tier 3 > 75K	5.00	5.40	5.40

Q. WHAT IS THE IMPACT OF YOUR PROPOSED RATES ON THE MEDIAN RESIDENTIAL CUSTOMER?

A. Table 2 below shows the monthly impact on a residential customer with median usage of Staff's and the Company's proposed rates.

Table 2

Median Customer Usage 3088 Gallons		
	Bill	\$ Increase
Bill at Present Rates	\$19.78	
Bill at Staff Proposed Rates	19.80	\$0.02
Bill at Company Proposed Rates	22.35	\$2.70

1 **Q. PLEASE DISCUSS STAFF'S AND THE COMPANY'S PROPOSED RATE**
2 **DESIGN.**

3 A. Staff's proposed rates result in a \$.02 monthly increase for the median residential
4 customer, and allocates the entirety of the proposed increase to the top two
5 commodity tiers. This is an unreasonable allocation because it is actually more
6 likely to result in a revenue *decrease* rather than a revenue increase. High use
7 customers are more likely to conserve than other customers. The bulk of Cordes
8 Lakes customers already use a low amount of water and thus have little room for
9 conservation. In contrast, the few high use customers can certainly look for ways
10 to reduce their usage. All it will take is for a few high use customers to cut back on
11 their usage to completely eliminate the increase recommended by Staff or to
12 actually result in a decrease. Staff's unreasonable and highly risky rate design
13 should not be adopted.

14 The Company's proposed rates result in only a \$2.70 monthly increase for
15 the median residential customer. The Company's proposed rates allocate most (but
16 not all) of the proposed increase to the monthly minimum charge which leads to
17 revenue stability. Given the substantial infrastructure investments Cordes Lakes is
18 faced with, revenue stability is imperative.

19 Under Staff's proposed rates, 41% of revenue will come from monthly
20 minimum charges and 59% from Commodity rates. Under the Company's
21 proposed rates 46% of revenue will come from monthly minimum charges and
22 54% from Commodity rates. Although the Company is not proposing a radically
23 different rate design, Staff's allocation of 100% of their proposed increase to the
24 top two commodity rate tiers substantially enhances the risk to the Company that it
25 will not earn the authorized revenue requirement, and it should be rejected.

1 **XI. OTHER ISSUES (SURCHARGES, BMPS, AND CC&N APPLICATION)**

2 **Q. PLEASE DISCUSS THE SURCHARGES RECOMMENDED IN THE**
3 **COMPANY'S APPLICATION.**

4 A. Due to high levels of water loss Cordes Lakes is in great need of plant investment.
5 This is not the result of mismanagement, it is simply the result of age. The plant in
6 the ground is getting old and needs to be replaced. Staff's Engineering Report
7 demonstrates that plant additions are necessary to address the water loss issue.¹¹ It
8 also finds that the Company's proposed expenditures to deal with these issues to
9 "be a good starting point."¹² As a result, the Company is proposing that surcharges
10 be put in place to fund the necessary plant investments.

11 In its amended application, the Company explains that (1) it was ordered in
12 its last rate case to investigate mitigating water loss from leaks and old meters, (2)
13 the Company does not have the finances to fund a major leak reduction effort, and
14 (3) the plant responsible for most of the leaks was installed prior to 1974. In spite
15 of these averments, Staff's accounting witness indicates that the Company "did not
16 provide any explanation to support" the surcharges.¹³ Staff's accounting witness
17 also characterizes the necessary work on water loss as "repairs" and as "normal on-
18 going costs."¹⁴ This is a mischaracterization at best. Dealing with plant that is
19 more than forty years old and that is causing substantial leaks does not require
20 "repairs" – it requires investments in new plant. Staff's engineering witness
21 agrees that the Company's proposal to spend \$30,000 per year over the next two
22

23 ¹¹ See Exhibit DS to the Direct Testimony of Del Smith at page 8.

24 ¹² See point 2 under CONCLUSIONS in the Executive Summary of the Direct Testimony
of Del Smith in this Docket.

25 ¹³ See Exhibit DS to the Direct Testimony of Del Smith at page 8.

26 ¹⁴ Direct Testimony of Mary J Rimback at 22.

1 years addressing this issue is “a good starting point.”¹⁵ Yet Staff’s accounting
2 witness allows only \$13,662 for repairs and maintenance expense – for the entire
3 system – and states that it is sufficient to cover on-going costs.

4 While the Company believes that a surcharge is appropriate in this case, it is
5 also aware and understands that the Staff and Commission have not typically
6 allowed for such surcharges. In order to limit the issues in dispute, and
7 notwithstanding the contradictions in Staff’s testimony discussed above, the
8 Company is withdrawing its request for surcharges. However, this discussion
9 highlights the Company’s need for rate relief in this docket, and clears the record
10 that the Company did in fact explain its need for the surcharges. Cordes Lakes is
11 in need of substantial plant investment, which will be untenable if the rates
12 recommended by Staff are adopted.

13 **Q. PLEASE DISCUSS THE ISSUE CONCERNING BEST MANAGEMENT**
14 **PRACTICES (BMPS.)**

15 A. Staff is recommending that the Company file tariffs for five different BMPs.
16 However, Staff includes no cost recovery for the expenses associated with these
17 BMPs. The Company’s focus is on addressing the state of its aging distribution
18 system, and requiring the Company to file these BMP tariffs – especially without
19 any promise of cost recovery – is an unnecessary burden, and the Company
20 respectfully requests that the Commission reject Staff’s recommendation.

21 **Q. PLEASE DISCUSS STAFF’S RECOMMENDATION REGARDING A**
22 **FUTURE CC&N APPLICATION.**

23 A. Staff is recommending that the Company file a CC&N extension application to
24 deal with customers it is serving outside of its service territory. As a result of

25 ¹⁵ See point 2 under CONCLUSIONS in the Executive Summary of the Direct Testimony of Del
26 Smith in this Docket.

1 recent changes to the Commission's rules and regulations, CC&N applications are
2 now more time consuming and expensive. Given the water loss issues the
3 Company is grappling with, the additional expense and effort required to file a
4 CC&N extension application should be avoided. Neither the Company nor its
5 ratepayers will be harmed. As a compromise, Cordes Lakes may be willing to file
6 a Notice of Extension so that the CC&N boundaries can be properly established
7 and recorded by Staff, but only if the process is streamlined and will not require a
8 costly expenditure. In the absence of Staff's willingness to compromise, then the
9 Company would respectfully requests that Staff's recommendation not be adopted.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Table of Contents

I. INTRODUCTION..... 1

II. COST OF CAPITAL..... 3

III. CIAC BALANCE 9

IV. BAD DEBT 11

V. REAL PROPERTY 12

VI. INVOICES 12

VII. RATE CASE EXPENSE..... 13

VIII. POST TEST YEAR PLANT..... 14

IX. EXPENSE ADJUSTMENTS..... 15

X. REVENUE REQUIREMENT AND RATE DESIGN..... 15

XI. OTHER ISSUES (SURCHARGES, BMPS, AND CC&N APPLICATION)..... 18

8116718.2

SCHEDULES

CORDES LAKES WATER COMPANY

Docket No. W-02060A-12-0356

Test Year Ended December 31, 2011

Schedule 1 CIAC and CIAC Amortization

Date	Amount	Balance
12/31/1999	79638.88	79638.88
11/30/2000	-4685	74953.88
12/31/2001	-4685	70268.88
12/31/2002	-4685	65583.88
12/31/2003	-4685	60898.88
12/31/2004	13115	74013.88
11/30/2005	-4685	69328.88
12/31/2006	-4685	64643.88
12/31/2007	-4685	59958.88
12/31/2008	-4185	55773.88
12/31/2009	-4185	51588.88
12/31/2010	-4185	47403.88
12/31/2011	-4185	43218.88
12/31/2012	-4185	39033.88

Total CIAC
92753.88

Total CIAC Amortization
-53720

Current CIAC Balance
39034

CORDES LAKES WATER COMPANY
Docket No. W-02060A-12-0356
Test Year Ended December 31, 2011

Schedule 2 Analysis of Invoices

2007	Invoice #	Date	Invoices	Plant Per Staff	Expenses Per Staff	Plant Per per company	Expenses per company
			Amount				
	104306	26-Dec-06	2,076	-	-	1265	810
	104409	4-Jan-07	909	1,008	1,068	909	
	105059	8-Feb-07	192	909	-	192	
	105057	8-Feb-07	953	192	-	858	95
	105058	2/8/07	3,304	746	206	2971	333
	106690	5/1/07	3,305	2,352	952	3104	200
	107178	5/24/07	909	2,514	791	909	
	17638	6/14/07	1,148	909	-	1066	82
	108116	7/10/07	432	-	1,148	431.83	
	108115	7/10/07	1,229	432	-	865	364
	108268	7/18/07	1,966	-	1,229	1229.21	
	108966	8/2/07	1,436	1,966	-	1436	0
	10821	8/14/07	2,481	-	1,436	1858	622
	1359A	10/26/07	291	1,825	655	291	
	1100	11/8/07	65	291	-	65	
	1359	10/18/07	3,618	65	-	3583	35
2007 Subtotal			24,312	13,209	7,485	21,033.04	2,541.23
2008	2944A	2/12/08	1,938	-	-	1937	5
	3861	3/13/08	3,116	1,938	-	3024	95
	4182	3/27/08	538	2,945	171	469	65
	4532	4/17/08	1,748	510	28	1748	
	261	4/30/08	8,688	1,748	-	8687.5	
	4646	5/1/08	15,246	8,688	-	15245.83	
	4033	5/7/08	3,541	15,246	-	3541.14	
	0	5/23/08	3,416	3,541	-	3415.87	
	5162	5/23/08	1,750	3,416	-	1749.68	
	4077	7/7/08	4,370	1,750	-	4369.61	
	6610	9/2/08	5,259	4,370	-	5259.32	
	4108	9/4/08	8,119	5,259	-	8119.08	
	6250	10/22/08	4,389	8,119	-	4388.88	
	7478	11/19/08	1,236	4,389	-	1235.78	
2008 Subtotal			63,352	61,918	198	63,191	165
2009	8115	1/8/09	822	-	-	549	239
	9517	5/14/09	591	822	-	549	8
	10407	8/12/09	1,207	591	-	1165	17
	10975	10/8/09	701	1,168	38	572	130
	11486	12/11/09	485	582	119	485	
2009 Subtotal			3,805	3,163	157	3,320	394
2010	12301	3/4/10	1,165	-	-	1165.32	-
	1919	12/28/10	942	1,165	-	0	942
2010 Subtotal			2,108	1,165	-	1,165	942

2011	2223	6/28/11	1,611	-	-	1610.87	0
	Contract		2,412	1,611	-	2411.5	0
2011 Subtotal			4,023	1,611	-	4,022	-

Total of Provided Invoices	97,600	81,066	7,841	92,731	4,043
-----------------------------------	---------------	---------------	--------------	---------------	--------------

Total Plant Additions per application	100,635	100,635
--	----------------	----------------

Difference	3,035	7,904
Difference Plus Expenses	10,876	11,946
Missing Invoice (Invoice No. S1016897) Exh	13,533	13,533
Surplus/(Deficit)	2,658	1,587

Schedule A
Computation of Increase in
Revenue Requirement

<u>Line</u>		<u>Original Cost</u>	<u>RCND</u>
1	Adjusted Rate Base	\$ 222,825	\$ 222,825
2	Adjusted Operating Income	\$ (15,122)	\$ (15,122)
3	Current Rate of Return	-6.79%	-6.79%
4	Required Operating Income	\$ 23,508	\$ 23,508
5	Required Rate of Return	10.55%	10.55%
6	Operating Income Deficiency (4 - 2)	\$ 38,630	\$ 38,630
7	Gross Revenue Conversion Factor	1.301	1.301
8	Increase in Gross Revenue Requirements (6 x 7)	<u>\$ 50,271</u>	<u>\$ 50,271</u>

	Customer Classification	Adjusted Revenue at Present Rates	Revenue at Proposed Rates	Projected Revenue Increase Due to Rates	% Dollar Increase
9	3/4" Meter Residential	\$ 405,243	\$ 454,163	\$ 48,920	12.07%
10	1" Meter Commercial	2,400	2,737	337	14.06%
11	2" Meter Commercial	5,463	5,881	418	7.65%
12	Unmetered Revenue	8,090	8,090	-	0.00%
13	Total	<u>\$ 420,536</u>	<u>\$ 470,871</u>	<u>\$ 50,335</u>	<u>11.97%</u>

CORDES LAKES WATER COMPANY
Docket No. W-02060A-12-0356
Test Year Ended December 31, 2011

Schedule B
Rate base

Line	Description	Company as Filed	Staff as Adjusted	Company as Revised
1	Gross Utility Plant in Service	\$ 601,634	\$ 1,137,023	\$ 1,198,775
2	Less: Accumulated Depreciation	(139,712)	(894,996)	(897,637)
3	Net Utility Plant in Service	\$ 461,922	\$ 242,027	\$ 301,139
4	Less:			
5	Meter Advances	\$ 21,110	\$ 21,110	\$ 21,110
6	Contributions in Aid of Construction	-	\$ 76,247	\$ 92,754
7	Customer Deposits	18,170	18,170	18,170
8	Add:			
9	Amortization of Contributions	\$ -	\$ -	\$ 53,720
10	Deferred Tax Assets	\$ -	\$ -	\$ -
11	Allowance for Working Capital	74,147	-	-
12	Total Rate Base	\$ 496,789	\$ 126,500	\$ 222,825

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS REVISED	(B) - (G) Staff Adjustments*										(H) COMPANY ADJUSTED	
				(B)		(C)		(E)		(G)		(F)			
				Ree & Res. Land ADJ. #6	Used & Useful ADJ. #8	Acc. Depr. ADJ. #9	Working Capital ADJ. #6	Post-Test Year ADJ. #7							
PLANT IN SERVICE															
1			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
2	301	Organization													
3	302	Franchises													
4	303	Land and Land Rights	85,599												
5	304	Structures & Improvements	6,657	(35,665)											49,934
6	305	Collecting & Impounding Reservoirs													6,657
7	306	Lakes, Rivers, Other Intakes													-
8	307	Wells and Springs	167,348												-
9	308	Infiltration Galleries and Tunnels													-
10	309	Supply Mains													-
11	310	Power Generation Equipment													-
12	311	Pumping Equipment	26,588												-
13	320	Water Treatment Plant													-
14	330	Distribution Reservoirs & Standpipes	141,632												-
15	331	Transmission & Distribution Mains	15,069												-
16	333	Services													-
17	334	Meters & Meter Installation	70,842												-
18	335	Hydants													-
19	336	Backflow Prevention Devices													-
20	339	Other Plant & Misc. Equipment	59,315												-
21	340	Office Furniture & Equipment	7,027												-
22	341	Transportation Equipment	71,461												-
23	342	Stores Equipment													-
24	343	Tools, Ship & Garage Equipment													-
25	344	Laboratory Equipment													-
26	345	Power Operated Equipment													-
27	346	Communication Equipment													-
28	347	Miscellaneous Equipment													-
29	348	Other Tangible Plant													-
30		Total Plant in Service	651,568	(35,665)	582,872										1,198,775
31															
32		Less: Accumulated Depreciation	139,712	-	-										16,324
33															
34		Net Plant in Service (L30 - L 32)	\$ 511,856	\$ (35,665)	\$ 582,872	\$ (755,284)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,641
35															
36		LESS:													
37		Contributions in Aid of Construction (CIAC)	\$ 92,754	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 92,754
38		Less: Accumulated Amortization	53,720												53,720
39		Net CIAC (L25 - L26)	39,034												39,034
40		Meier Advances													-
41		Customer Deposits													-
42		Deferred Tax Liabilities	18,170												18,170
43															-
44		ADD:													-
45		Unamortized Finance Charges													-
46		Deferred Tax Assets													-
47		Working Capital	74,147											(74,147)	-
48															
49		Original Cost Rate Base	\$ 507,690	\$ (35,665)	\$ 582,872	\$ (755,284)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 222,825

*Staff Adjustments # 3 and 5 are not included as they are not accepted by the Company.

CORDES LAKES WATER COMPANY
Docket No. W-02060A-12-0356
Test Year Ended December 31, 2011

Schedule B-2F

RATE BASE ADJUSTMENTS for Post Test Year Plant

Pumping Equipment

Depreciation Rate 12.5%

	Installed Plant per year	Total Installed Plant	Depreciation (With half Year Convention)
2013	7,680	16,324	1,560
2012	8,644	8,644	1,080
Total	16,324	Accumulated Depreciation	2,641

Line	Acct	Description	Company as Filed	Staff as Adjusted	Company Adjustments	Company as Revised	Proposed Rate Increase	Adjusted Test Year With Rate Increase
Operating Revenues:								
1	461	Metered Water Revenue	\$ 403,353	\$ 412,446	\$ -	\$ 412,446	\$ 50,271	\$ 462,717
2	460	Unmetered Water Revenue	-	-	-	-	-	-
3	474	Other Water Revenue	640	8,090	-	8,090	-	8,090
4		Received For Contract Labor	167,692	-	-	-	-	-
5		Total Operating Revenue	\$ 571,685	\$ 420,536	\$ -	\$ 420,536	\$ 50,271	\$ 470,807
Operating Expenses:								
6		Operating Expenses:						
7	601	Salaries and Wages	\$ 309,095	\$ 141,403	\$ -	\$ 141,403	\$ -	\$ 141,403
		Contract Labor	10,312	10,312	-	10,312	-	10,312
8	604	Employee Pensions and Benefits	29,422	29,422	-	29,422	-	29,422
9	610	Purchased Water	-	-	-	-	-	-
10	615	Purchased Power	31,723	31,723	917	32,640	-	32,640
11	618	Chemicals	-	-	-	-	-	-
12		Repairs and Maintenance	12,650	13,662	-	13,662	-	13,662
13	621	Office Supplies and Expense	14,491	14,491	-	14,491	-	14,491
14	630	Contractual Services - Billing	24,118	24,118	-	24,118	-	24,118
15		Contractual Services - Accounting	3,660	3,660	6,340	10,000	-	10,000
16		Contractual Services - Computer Programmin	3,511	3,511	-	3,511	-	3,511
17		Water Testing	1,806	5,858	-	5,858	-	5,858
18	640	Rents	28,150	28,150	-	28,150	-	28,150
19	650	Transportation Expenses	8,995	8,995	-	8,995	-	8,995
20		Insurance - General Liability	33,033	33,033	-	33,033	-	33,033
		Insurance - Health and Life	14,936	14,936	-	14,936	-	14,936
21	665	Rate Case Expense	-	-	-	6,000	-	6,000
		Regulatory Expense	-	-	-	-	-	-
22		670 Bad Debt Expense	-	-	-	4,049	-	4,049
23	675	Miscellaneous Expenses - Permits	2,000	2,000	-	2,000	-	2,000
		Miscellaneous Expenses - Travel	-	-	-	-	-	-
		Miscellaneous Expenses - Utilities Except Ele	3,391	3,391	-	3,391	-	3,391
		Miscellaneous Expenses - Bank Charges	1,304	1,304	-	1,304	-	1,304
		Miscellaneous Expenses - Payroll Services	859	859	-	859	-	859
24	403	Depreciation Expenses	37,195	18,547	2,961	21,508	-	21,508
25		Payroll Taxes	175	175	-	175	-	175
26	408.11	Property Taxes	18,187	23,429	-	23,428	936	24,364
27	409	Income Taxes	45	1,362	-	1,362	6,081	7,443
28	427.4	Interest Expense - Customer Deposits	-	1,050	-	1,050	-	1,050
29		Total Operating Expenses	\$ 589,058	\$ 415,391	\$ 10,218	\$ 435,658	\$ 7,017	\$ 442,675
28		OPERATING INCOME/(LOSS)	\$ (17,373)	\$ 5,145	\$ -	\$ (15,122)	\$ 43,254	\$ 28,132

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.7614%			
3	Revenues (L1 - L2)	99.2386%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	22.3951%			
5	Subtotal (L3 - L4)	76.8435%			
6	Revenue Conversion Factor (L1 / L5)	1.301346			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	20.9228%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.0772%			
10	Uncollectible Rate	0.9629%			
11	Uncollectible Factor (L9 * L10)	0.7614%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	13.9548%			
17	Combined Federal and State Income Tax Rate (L13 + L16)	20.9228%			
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	20.9228%			
20	One Minus Combined Income Tax Rate (L18 - L19)	79.0772%			
21	Property Tax Factor (MJR-17, L24)	1.8618%			
22	Effective Property Tax Factor (L 21 * L 22)	1.4723%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		22.3951%		
24	Required Operating Income (Schedule MJR-1, Line 5)	\$ 23,508			
25	Adjusted Test Year Operating Income (Loss) (Schedule MJR-11, Line 40)	\$ (15,122)			
26	Required Increase in Operating Income (L24 - L25)		\$ 38,630		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 7,443			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ (2,879)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 10,322		
30	Recommended Revenue Requirement (Schedule MJR-1, Line 10)	\$ 470,807			
31	Uncollectible Rate (Line 10)	0.9629%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ 4,533			
33	Adjusted Test Year Uncollectible Expense	\$ 4,049			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ 484		
35	Property Tax with Recommended Revenue (MJR-17, L19)	\$ 24,364			
36	Property Tax on Test Year Revenue (MJR-17, L 16)	\$ 23,428			
37	Increase in Property Tax Due to Increase in Revenue (MJR-17, L22)		\$ 936		
38	Total Required Increase in Revenue (L26 + L29 + L34+L37)		\$ 50,372		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule MJR-11, Col.(C), Line 5 & Sch. MJR-1, Col. (B), Line 10)	\$ 420,536	\$ 50,271	\$ 470,807	
40	Operating Expenses Excluding Income Taxes	\$ 434,296		\$ 435,232	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L317- L38)	\$ (13,760)		\$ 35,575	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L39 x L40)		\$ (959)		\$ 2,479
45	Federal Taxable Income (L42- L43)	\$ (12,801)		\$ 33,096	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (1,920)		\$ 4,964	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax		\$ (1,920)		\$ 4,964
52	Combined Federal and State Income Tax (L44 + L51)		\$ (2,879)		\$ 7,443
53	Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (B), L51] / [Col. (C), L45 - Col. (A), L45]				15.0000%
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule MJR-3, Col. (C), Line 17)	\$ 222,825			
55	Weighted Average Cost of Debt	0.00%			
56	Synchronized Interest (L54 X L56)	\$ -			

OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	COMPANY AS ADJUSTED	COMPANY RECOMMENDED
1	Company Adjusted Test Year Revenues - 2011	\$ 420,536	\$ 420,536
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	841,072	\$ 841,072
4	Company Recommended Revenue, Per Schedule MJR-1	420,536	\$ 470,807
5	Subtotal (Line 4 + Line 5)	1,261,608	1,311,879
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	420,536	437,293
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	841,072	874,586
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	2,171	2,171
12	Full Cash Value (Line 9 + Line 10 - Line 11)	838,901	\$ 872,415
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	167,780	\$ 174,483
15	Composite Property Tax Rate	13.9638%	13.9638%
16	Company Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 23,428	\$ -
17			
18			
19	Property Tax - Company Recommended Revenue (Line 14 * Line 15)		\$ 24,364
20	Company Test Year Adjusted Property Tax Expense (Line 16)		\$ 23,428
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 936
22	Increase to Property Tax Expense		\$ 936
23	Increase in Revenue Requirement		50,271
24	Increase to Property Tax per Dollar Increase in Revenue (Line 22/Line 23)		1.861840%

CORDES LAKES WATER COMPANY
Docket No. W-02060A-12-0356
Test Year Ended December 31, 2011

Schedule C-5

	Rate Case Expense
Expense	18,000
Ammortization Period (years)	3
	<hr/>
	6000

Schedule C-6 Depreciation Expense Adjustment

Line No.	ACCT NO.	DESCRIPTION	Amount	Depreciable Amount Per Staff	Add Back Amounts from Staff Rate base Adjustment #3	Depreciable Amount Per Company	Depreciation Rate	Depreciation Expense
Plant In Service								
1	301	Organization	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -
2	302	Franchises	-	-	-	-	0.00%	-
3	303	Land and Land Rights	-	-	-	-	0.00%	-
4	304	Structures & Improvements	6,657	4,400	-	4,400	3.33%	147
5	305	Collecting & Impounding Reservoirs	-	-	-	-	2.50%	-
6	306	Lakes, Rivers, Other Intakes	-	-	-	-	2.50%	-
7	307	Wells and Springs	167,348	151,979	-	151,979	3.33%	5,061
8	308	Infiltration Galleries and Tunnels	-	-	-	-	6.67%	-
9	309	Supply Mains	-	-	-	-	2.00%	-
10	310	Power Generation Equipment	-	-	-	-	5.00%	-
11	311	Pumping Equipment	26,588	16,030	-	16,030	12.50%	2,004
12	320	Water Treatment Plant	-	-	-	-	3.33%	-
13	330	Distribution Reservoirs & Standpipes	141,632	94,458	-	94,458	2.22%	2,097
14	331	Transmission & Distribution Mains	581,937	19,442	(3,898)	15,544	2.00%	311
15	333	Services	19,350	-	-	-	3.33%	-
16	334	Meters & Meter Installation	54,817	47,078	16,025	63,103	8.33%	5,256
17	335	Hydrants	-	-	-	-	2.00%	-
18	336	Backflow Prevention Devices	-	-	-	-	6.67%	-
19	339	Other Plant & Misc. Equipment	60,550	60,550	1,235	61,785	6.67%	4,121
20	340	Office Furniture & Equipment	6,101	6,101	926	7,027	6.67%	469
21	341	Transportation Equipment	71,461	2,412	-	2,412	20.00%	482
22	342	Stores Equipment	-	-	-	-	4.00%	-
23	343	Tools, Ship & Garage Equipment	-	-	-	-	5.00%	-
24	344	Laboratory Equipment	-	-	-	-	10.00%	-
25	345	Power Operated Equipment	-	-	-	-	5.00%	-
26	346	Communication Equipment	-	-	-	-	10.00%	-
27	347	Miscellaneous Equipment	582	-	-	-	10.00%	-
28	348	Other Tangible Plant	-	-	-	-	0.00%	-
								Total Depreciation Expense \$ 19,948 a
								Staff Depreciation Expense \$ 18,547 b
								Adjustment for Reversal of Staff Rate base Adjustment #3 \$ 1,401 c=a-b
								Depreciation Expense Associated With Post Test Year Plant \$ 1,560 d
								TOTAL ADJUSTMENT \$ 2,961 e=d+c

Monthly Usage Charge	Present Rates		-Proposed Rates-	
	Company		Company	
	Application		Staff	Revised
5/8" x 3/4" Meter	N/A	N/A	N/A	
3/4" Meter	11.00	13.50	11.00	\$ 13.65
1" Meter	19.50	24.50	19.50	\$ 23.58
1 1/2" Meter	39.00	48.75	39.00	\$ 48.40
2" Meter	62.50	78.00	62.50	\$ 77.56
3" Meter	125.00	156.00	125.00	\$ 155.11
4" Meter	220.00	275.00	220.00	\$ 273.00
6" Meter	390.00	485.00	390.00	\$ 483.95

Commodity Rate Charge

<u>3/4" Meter</u>					
Tier 1	From 0 to 3,000 gallons	2.80	3.30	2.80	2.81
Tier 2	From 3,001 to 8,000 gallic	4.30	5.25	4.50	4.50
Tier 3	Over 8,000 gallons	5.00	6.00	5.40	5.40
<u>1" Meter</u>					
Tier 1	From 0 to 18,000 gallons	4.30	5.25	4.50	4.50
Tier 2	Over 18,000 gallons	5.00	6.00	5.40	5.40
<u>1 1/2" Meter</u>					
Tier 1	From 0 to 43,500 gallons	4.30	5.25	4.50	4.50
Tier 2	Over 43,500 gallons	5.00	6.00	5.40	5.40
<u>2" Meter</u>					
Tier 1	From 0 to 75,000 gallons	4.30	5.25	4.50	4.50
Tier 2	Over 75,000 gallons	5.00	6.00	5.40	5.40
<u>3" Meter</u>					
Tier 1	From 0 to 160,000 gallon:	4.30	5.25	4.50	4.50
Tier 2	Over 160,000 gallons	5.00	6.00	5.40	5.40
<u>4" Meter</u>					
Tier 1	From 0 to 290,000 gallon:	4.30	5.25	4.50	4.50
Tier 2	Over 290,000 gallons	5.00	6.00	5.40	5.40
<u>6" Meter</u>					
Tier 1	From 0 to 530,000 gallon:	4.30	5.25	4.50	4.50
Tier 2	Over 530,000 gallons	5.00	6.00	5.40	5.40

Gallons Included in Minimum 0 0 0 0

Present Rates Company and Staff

Service Line and Meter Installation Charges	Total	Service		Total
		Line	Meter Installation	
5/8" x 3/4" Meter	N/T	N/T	N/T	N/T
3/4" Meter	520.00	426.00	198.00	624.00
1" Meter	610.00	486.00	246.00	732.00
1 1/2" Meter	855.00	528.00	498.00	1,026.00
2" Meter	1,515.00	720.00	1,098.00	1,818.00
2" Meter	2,195.00	930.00	1,764.00	2,694.00
3" Meter	2,195.00	930.00	1,764.00	2,694.00
3" Meter	6,115.00	1,332.00	2,700.00	4,032.00
4" Meter	3,360.00	1,332.00	2,700.00	4,032.00
4" Meter	3,020.00	1,050.00	1,970.00	3,020.00
6" Meter	6,115.00	2,000.00	5,350.00	7,350.00
6" Meter (Compound)	5,960.00	1,250.00	4,710.00	5,960.00
8" Meter (Turbine)	Cost	Cost	Cost	Cost
10" Meter (Turbine)	Cost	Cost	Cost	Cost
12" Meter (Turbine)	Cost	Cost	Cost	Cost

Service Charges

Present Rates Company and Staff

Establishment	\$25.00	\$30.00
Establishment (After Hours)	\$35.00	NT
Reconnection (Delinquent)	\$15.00	\$20.00
Reconnection (Delinquent) After Hours	\$25.00	NT
NSF Check	\$12.50	\$15.00
Meter Re-Read (If Correct)	\$10.00	\$12.00
Meter Test (If Correct)	\$25.00	\$30.00
Deferred Payment (per Month)	1.5%	***

* Per Commission Rules (R14-2-403.B)
 ** Months off system times the minimum (R14-2-403.D)
 *** 1.5% on the unpaid balance per month
 **** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinkler is only applicable for service lines separate and distinct from the primary water service line.

Median Customer Usage 3088 Gallons				
			\$ Increase	% Increase
Bill at present rates	\$	19.78		
Bill at Staff's Proposed Rate	\$	19.80	\$ 0.02	0.09%
Bill at Company's Proposed Rates	\$	22.48	\$ 2.70	13.64%

Average Customer Usage 4169 Gallons				
			\$ Increase	% Increase
Bill at present rates	\$	24.43		
Bill at Staff's Proposed Rate	\$	24.66	\$ 0.23	0.96%
Bill at Company's Proposed Rates	\$	27.34	\$ 2.91	11.93%

EXHIBIT 1

EXHIBIT 1

Matthew Rowell

PO Box 51628
Phoenix, AZ 85076
480 961 5484 or 602 762 0100
mattrowell@cox.net

Professional History

- **Desert Mountain Analytical Services, PLLC (DMAS) 2007 – Present**
Managing Member
DMAS is a small consulting firm specializing in utility finance, ratemaking and other regulatory issues. DMAS' clients range in size from large multinational corporations to small rural utilities.
- **Arizona Corporation Commission 1996 to 2007**
Chief Economist (July 2001 to February 2007)
Analyzed and produced testimony or staff reports on a wide variety of utility issues.
Supervised a staff of nine professionals with similar responsibilities.
Economist (October 1996 to July 2001)
Analyzed and produced testimony or staff reports on a wide variety of utility issues.

Education

- **Master of Science and ABD Economics, 1995, Arizona State University.**
Successfully completed all course work and exams necessary for a Ph.D. Course work included an emphasis in industrial organization and extensive experience with statistical analysis, public sector economics, and financial economics.
- **Bachelor of Science Economics, 1992, Florida State University.**
Minors: Philosophy, Statistics.

Certifications

Certified Rate of Return Analyst designation awarded by the Society of Utility and Regulatory Financial Analysts based on experience and successful completion of a written examination.

EXHIBIT 1

List of Specific Projects

Global Water Resources

Provided expert testimony regarding Global's cost of capital and rate consolidation. Created the bill-count data necessary for rate design. Consulted on the totality of schedules and testimony, Docket No. SW-20445A-12-0309.

Provided expert testimony regarding Global's financial viability and regulatory status before an arbitration panel. American Arbitration Association Case Nos. 76 198 Y 0104 11JMLE and 76 198 Y 0105 11 JMLE.

Provided strategic advice and analysis to Global re the ACC's ongoing water workshops.

Rate case testimony: Cost of Capital, Rate Consolidation, treatment of Infrastructure Coordination and Finance Agreements, Docket No. W-20446A-09-0080.

Prepared and sponsored testimony on Global's Notice of Intent to Restructure, Docket No. W-20446A-08-0247.

Provided strategic guidance regarding the Arizona Water complaint against Global, Docket No. W-01445A-06-0200.

Ray Water Company, Inc.

Provided expert testimony regarding Ray Water Company's cost of capital, Docket No. W-01380A-12-0254.

EPCOR Utilities, Inc.

Provided strategic advice on the Arizona regulatory environment as it relates to EPCOR's purchase of Arizona utilities.

Rio Rico Properties

Testimony in the Rio Rico Utilities rate case, Docket No. WS-02676A-09-0257.

Residential Utility Consumer Office

Testimony re affiliate relations in the Litchfield Park Service Company Rate Case, Docket No. SW-01428A-09-0103.

Other

Assisted with financial analysis, rate design and other rate case testimony and schedules for East Slope, Antelope Run, Indiada, Southland, Valle Verde and other small water companies.

ACC Staff

APS Rate Case E-01345A-05-0816: Provided testimony on staff's position on APS' proposed Environmental Improvement Charge. Also acted as the overall case manager and was responsible for coordinating all of staff's testimony.

APS Application to acquire a power plant in the Yuma area E-01345A-06-0464: Provided testimony detailing Staff's position on the application.

EXHIBIT 1

Southern California Edison's application to build a high voltage power line linking Arizona to Southern California L-00000A-06-0295-00130: Provided testimony detailing the potential economic effects of SCE's proposed power line.

Managed Staff's case (including negotiating a settlement agreement) in APS' 2003 rate case.

Negotiated (along with other Staff members) the settlement between staff and Qwest regarding three enforcement dockets.

Supervised the "independent monitor" of APS' and Tucson Electric Power's wholesale power procurement.

Staff's lead witness in the Commission's reevaluation of the electric competition rules which resulted in the suspension of APS' and TEP's obligation to divest their generation assets (E-00000A-02-0051.)

Acted as Chairman of the Commission's Water Task Force.

Accipiter's complaint against Cox Communications regarding the Vistancia development T-03471A-05-0064: Provided testimony regarding Accipiter's allegations concerning Cox's dealings with the developers of Vistancia.

Provided testimony on Qwest's noncompliance with the Commission's wholesale rate order.

Managed Staff's case regarding Qwest's alleged noncompliance with the Federal Telecommunications Act.

Supervised the testing of Qwest's operational support systems (OSS) and the development of Qwest's Performance Assurance Plan as part of Qwest's compliance with Section 271 of the Federal Telecommunications Act.

Provided testimony on the geographic de-averaging of Qwest's Unbundled Network Element prices.

EXHIBIT 2

Billing Group	Trans #	Trans Description	Reference	Account #	Account Name	Posting Date	Debit	Credit
Billing Group: Billing Cycle 01								
GL Account: Write Off Bad Debt								
Billing Cycle 01	1625566	Write Off Bad Debt		00010016-01		10/28/2011	\$86.57	
Billing Cycle 01	1625567	Write Off Bad Debt		00010017-01		10/28/2011	\$63.62	
Billing Cycle 01	1625568	Write Off Bad Debt		00010099-04		10/28/2011	\$63.62	
Billing Cycle 01	1625569	Write Off Bad Debt		00010146-01		10/28/2011	\$80.06	
Billing Cycle 01	1625570	Write Off Bad Debt		00010237-05		10/28/2011	\$52.17	
Billing Cycle 01	1625571	Write Off Bad Debt		00010248-05		10/28/2011	\$19.81	
Billing Cycle 01	1625572	Write Off Bad Debt		00010254-13		10/28/2011	\$34.88	
Billing Cycle 01	1625573	Write Off Bad Debt		00010270-05		10/28/2011	\$59.32	
Billing Cycle 01	1625574	Write Off Bad Debt		00010292-06		10/28/2011	\$63.27	
Billing Cycle 01	1625575	Write Off Bad Debt		00010295-03		10/28/2011	\$29.25	
Billing Cycle 01	1625576	Write Off Bad Debt		00010309-05		10/28/2011	\$57.12	
Billing Cycle 01	1625577	Write Off Bad Debt		00010312-03		10/29/2011	\$104.34	
Billing Cycle 01	1625578	Write Off Bad Debt		00010327-01		10/29/2011	\$72.22	
Billing Cycle 01	1625579	Write Off Bad Debt		00010328-08		10/29/2011	\$4.42	
Billing Cycle 01	1625580	Write Off Bad Debt		00010335-02		10/29/2011	\$65.64	
Billing Cycle 01	1625581	Write Off Bad Debt		00010349-06		10/29/2011	\$35.14	
Billing Cycle 01	1625582	Write Off Bad Debt		00010372-01		10/29/2011	\$83.99	
Billing Cycle 01	1625583	Write Off Bad Debt		00010389-01		10/29/2011	\$26.44	
Billing Cycle 01	1625584	Write Off Bad Debt		00010436-02		10/29/2011	\$54.99	
Billing Cycle 01	1625585	Write Off Bad Debt		00010501-01		10/29/2011	\$149.53	
Billing Cycle 01	1625586	Write Off Bad Debt		00010512-03		10/29/2011	\$10.52	
Billing Cycle 01	1625587	Write Off Bad Debt		00010569-05		10/29/2011	\$5.16	
Billing Cycle 01	1625588	Write Off Bad Debt		00010570-05		10/29/2011	\$43.05	
Billing Cycle 01	1625589	Write Off Bad Debt		00010587-06		10/29/2011	\$57.61	
Billing Cycle 01	1625590	Write Off Bad Debt		00010592-04		10/29/2011	\$16.61	
Billing Cycle 01	1625591	Write Off Bad Debt		00010605-01		10/29/2011	\$1.05	
Billing Cycle 01	1625592	Write Off Bad Debt		00010630-02		10/29/2011	\$1.93	
Billing Cycle 01	1625593	Write Off Bad Debt		00010631-02		10/29/2011	\$42.06	
Billing Cycle 01	1625594	Write Off Bad Debt		00010664-04		10/29/2011	\$41.78	
Billing Cycle 01	1625595	Write Off Bad Debt		00010680-04		10/29/2011	\$213.17	
Billing Cycle 01	1625596	Write Off Bad Debt		00010774-04		10/29/2011	\$6.24	
Billing Cycle 01	1625597	Write Off Bad Debt		00010800-03		10/29/2011	\$25.02	
Billing Cycle 01	1625598	Write Off Bad Debt		00010807-01		10/29/2011	\$9.04	
Billing Cycle 01	1625599	Write Off Bad Debt		00010823-08		10/29/2011	\$1.10	
Billing Cycle 01	1625600	Write Off Bad Debt		00010823-09		10/29/2011	\$26.52	
Billing Cycle 01	1625601	Write Off Bad Debt		00010876-02		10/29/2011	\$7.68	
Billing Cycle 01	1625602	Write Off Bad Debt		00010895-03		10/29/2011	\$10.31	

Billing Group	Trans #	Trans Description	Reference	Account #	Account Name	Posting Date	Debit	Credit
Billing Cycle 01	1625603	Write Off Bad Debt		00010896-01		10/23/2011	\$32.33	
Billing Cycle 01	1625604	Write Off Bad Debt		00010978-03		10/23/2011	\$7.86	
Billing Cycle 01	1625605	Write Off Bad Debt		00010991-01		10/29/2011	\$7.04	
Billing Cycle 01	1625606	Write Off Bad Debt		00010995-07		10/29/2011	\$3.67	
Billing Cycle 01	1625607	Write Off Bad Debt		00010996-09		10/29/2011	\$120.32	
Billing Cycle 01	1625608	Write Off Bad Debt		00011029-08		10/29/2011	\$4.58	
Billing Cycle 01	1625610	Write Off Bad Debt		00011033-07		10/29/2011	\$0.98	
Billing Cycle 01	1625611	Write Off Bad Debt		00011037-07		10/29/2011	\$8.28	
Billing Cycle 01	1625612	Write Off Bad Debt		00011044-01		10/29/2011	\$0.29	
Billing Cycle 01	1625613	Write Off Bad Debt		00011046-01		10/29/2011	\$9.66	
Billing Cycle 01	1625614	Write Off Bad Debt		00011081-07		10/29/2011	\$8.08	
Billing Cycle 01	1625615	Write Off Bad Debt		00011082-07		10/29/2011	\$385.23	
Billing Cycle 01	1625616	Write Off Bad Debt		00011083-08		10/29/2011	\$3.27	
Billing Cycle 01	1625617	Write Off Bad Debt		00011108-08		10/29/2011	\$1.56	
Billing Cycle 01	1625619	Write Off Bad Debt		00011172-04		10/29/2011	\$0.06	
Billing Cycle 01	1625620	Write Off Bad Debt		00010586-03		10/30/2011	\$85.55	
Billing Cycle 01	1625621	Write Off Bad Debt		00010866-02		10/30/2011	\$48.46	
Billing Cycle 01	1625622	Write Off Bad Debt		00010961-06		10/30/2011	\$30.27	
Billing Cycle 01	1625623	Write Off Bad Debt		00010961-07		10/30/2011	\$167.05	
Billing Cycle 01	1625624	Write Off Bad Debt		00010963-01		10/30/2011	\$62.79	
Billing Cycle 01	1625625	Write Off Bad Debt		00010964-06		10/30/2011	\$26.74	
Billing Cycle 01	1625626	Write Off Bad Debt		00010976-07		10/30/2011	\$21.15	
Billing Cycle 01	1625627	Write Off Bad Debt		00011036-03		10/30/2011	\$143.36	
Billing Cycle 01	1625628	Write Off Bad Debt		00011051-03		10/30/2011	\$127.92	
Billing Cycle 01	1625629	Write Off Bad Debt		00011071-03		10/30/2011	\$54.99	
Billing Cycle 01	1625630	Write Off Bad Debt		00011076-02		10/30/2011	\$58.75	
Billing Cycle 01	1625631	Write Off Bad Debt		00011096-07		10/30/2011	\$36.94	
Billing Cycle 01	1625632	Write Off Bad Debt		00011107-07		10/30/2011	\$27.53	
Billing Cycle 01	1625633	Write Off Bad Debt		00011178-03		10/30/2011	\$26.78	
Billing Cycle 01	1625634	Write Off Bad Debt		00011215-10		10/30/2011	\$16.40	
Billing Cycle 01	1625635	Write Off Bad Debt		00011223-04		10/30/2011	\$12.49	
Billing Cycle 01	1625636	Write Off Bad Debt		00011229-05		10/30/2011	\$42.79	
Billing Cycle 01	1625637	Write Off Bad Debt		00011240-02		10/30/2011	\$63.81	
Billing Cycle 01	1625638	Write Off Bad Debt		00011259-07		10/30/2011	\$46.84	
Billing Cycle 01	1625639	Write Off Bad Debt		00011274-01		10/30/2011	\$18.12	
Billing Cycle 01	1625640	Write Off Bad Debt		00011288-03		10/30/2011	\$238.41	
Billing Cycle 01	1625641	Write Off Bad Debt		00011297-08		10/30/2011	\$53.30	
Billing Cycle 01	1625642	Write Off Bad Debt		00011314-08		10/30/2011	\$24.54	
Billing Cycle 01	1625643	Write Off Bad Debt		00011329-03		10/30/2011	\$54.39	
Billing Cycle 01	1625644	Write Off Bad Debt		00011397-06		10/30/2011	\$23.31	

Billing Group	Trans #	Trans Description	Reference	Account #	Account Name	Posting Date	Debit	Credit
Billing Cycle 01	1625644	Write Off Bad Debt		00011439-03		10/30/2011	\$27.43	
Billing Cycle 01	1625645	Write Off Bad Debt		00011472-01		10/30/2011	\$32.83	
Billing Cycle 01	1625646	Write Off Bad Debt		00011511-02		10/30/2011	\$26.28	
Billing Cycle 01	1625647	Write Off Bad Debt		00011513-01		10/30/2011	\$90.41	
Billing Cycle 01	1625648	Write Off Bad Debt		00011555-03		10/30/2011	\$49.99	
GL Account: Write Off Bad Debt (82)								
Subtotal --->							\$4,049.21	\$0.00
Billing Group: Billing Cycle 01 (82)								
Subtotal --->							\$4,049.21	\$0.00
Grand Total (82)							\$4,049.21	\$0.00

EXHIBIT 3

10:26 AM
03/28/13
Accrual Basis

CORDES LAKES WATER COMPANY
Transactions by Account
All Transactions

Type	Date	Num	Name	Memo	Clr	Split	Amount	Balance
181 - LAND								
General Journal	12/31/1999			Transactions ...	X		53,919.31	53,919.31
General Journal	1/31/2000			Transactions ...	X		-500.00	53,419.31
General Journal	12/31/2002			Transactions ...	X		-500.00	52,919.31
General Journal	12/31/2005			Transactions ...	X		-1,500.00	51,419.31
General Journal	10/4/2006			to buy lot for ...		206 - NOTE PA...	35,180.18	86,599.49
Deposit	12/8/2006		MISC	SALE OF LOT...		102 - CHECK...	-500.00	86,099.49
Deposit	12/29/2006		MISC	SALE OF LOT...		101 - CHECK...	-500.00	85,599.49
Total 181 - LAND							85,599.49	85,599.49
TOTAL							85,599.49	85,599.49

EXHIBIT 4

National Meter & Automation
PO Box 5429
GREENWOOD VILLAGE CO 80155
(303) 339-9100 FAX (303) 649-1017

C-02
281-2800

ISSUED DATE	ISSUE NUMBER
11/04/08	S1015897.001
ISSUING BRANCH	
PACIFIC NORTHWEST REGIONAL OFFICE 1000 N. KALAMAZOO AVENUE SPOKANE, ID 83402 408 338 02 1 FAX 408 338 0211	
PAGE NO. 1	

Bill for
Arizona Water Works Supply, Inc
PO Box 219
TEMPE, AZ 85280

SHIP TO:
Arizona Water Works Supply, Inc
1908 W 1st St
TEMPE, AZ 85280


CUSTOMER NUMBER	CUSTOMER ORDER NUMBER	PLEASE PRINT	SALTSBURG
1041	BRAD	SCO/JD	
WRITE	SHIP VIA	TERMS	John Bjorklund SHIP DATE ORDER DATE
John Bjorklund	OT OUR TRUCK	Net Due 30 Days	11/04/08 08/15/08
DESCRIPTION	ORDER QTY	UNIT PRICE	Net Price Est Price
TRIMBLE RANGER HANDHELD W/O INTERNAL RECEIVER Includes two days onsite training, CONNECT s/w, and FREIGHT MS - READCENTER ROUTE MANAGEMENT SOFTWARE READCENTER LICENSE - UP TO 25,000 SERVICES ** ABOVE ITEMS PRICED AS 1 UNIT *****	3 1 1	3 1 1	3033.330 5200.000 0.000
			15059.99 5200.00 0.00
<p> <i>Pld Azur</i> <i>REPO c/w</i> <i>6766.67</i> <i>Due</i> <i>13,533.12</i> <i>s/o</i> <i>at 13,533.12</i> <i>6,766.67</i> <i>*Entered</i> </p> <p> <i>Attention</i> <i>Ed D.</i> </p> <p>  </p>			
Please visit us at www.nmanl.com			
Invoice is due by 12/04/08.		Subtotal	20299.99
Please refer to invoice for details. Please refer to invoice for details. Please refer to invoice for details.		S&H CHGS	0.00
All due invoices may be subject to 1.5% late charge.		Sales Tax	0.00
		Amount Due	20299.99

EXHIBIT 5

ARIZONA WATER WORKS SUPPLY

P.O. BOX 219

TEMPE, AZ 85280

PH: 480-966-5804 --- FAX: 480-967-7857

INVOICE

DATE	INVOICE #
7/10/2007	108115

BILL TO	SHIP TO
CORDES LAKES WATER CO. P. O. BOX 219 TEMPE, AZ 85280	

PAID
08/06/2007

P.O. #	TERMS	DATE ORDERED	SHIP VIA	F.O.B.	DEL. TICKET #
DICKY	NET 30 DAYS	2/28/2007	PICK UP	TEMPE	37984

QTY ORD	QTY SHIP	BK ORD	PART NO	DESCRIPTION	UNIT COST	AMOUNT
2	2		MJCAP.06T	6-IN MJ CAP (2" TAP)	28.40	56.80
2	2		MJCAP.04T	4 X 2 MJ TAPPED CAP	21.60	43.20
2	2		GN20.240	2 X 24 GALV NIPPLE	11.74	23.48
2	2		GN20.300	2 X 30-IN GALV. NIP	36.00	72.00
4	4		106.020	2-IN GALV 90	3.84	15.36
4	4		129.020	2-IN GALV COUP	3.10	12.40
4	4		BGV.020	2-IN BRASS GATE VALVE	19.00	76.00
10	10		F1100.4	1 IN CORP STOP IPT X CTS PJ	27.77	277.70
10	10		BGV.007	3/4 IN BRASS GATE VALVE	3.97	39.70
12	12		KV43.342W	ANGLE METER STOP 1-IN CTS PJ X 3/4 METER COUP	24.14	289.68
10	10		HS38.323	3/4 CHECK VALVE W/METER CPLG	19.35	193.50
2	2		TRANK1106	6-IN MJ TRANSITION KIT	13.80	27.60
2	2		TRANK1104	4-IN MJ TRANSITION KIT	10.40	20.80
				SALES TAX		80.99
Meter + Services Repair					\$ 865	
					\$ 364	
Total						\$1,229.21

Conditions of Sale: Claims for shortage must be made within five days of receipt of shipment. Deliveries are contingent upon strikes, accidents, and/or delays beyond our control. We replace materials with factory defects, but we will not be responsible for labor bills, construction damages or other consequential damages. Our responsibility for loss or damage ceases when we are given delivery receipt or carrier's receipt without exceptions. The goods can be returned only if they are given. 25% is charged for handling returned goods. Seller reserves title of these goods until paid for in full. INTEREST 1.5% PER MONTH OR 18% ANNUAL ON ACCOUNTS OVERDUE. In the event that seller must resort to legal process to recover payments of goods delivered hereunder, purchaser agrees to pay seller's LEGAL EXPENSES, including reasonable ATTORNEY'S FEES.